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# Builders at heart

ANNUAL REPORT
**2000**

SODISCO-HOWDEN group inc.

**SODISCO-HOWDEN GROUP INC. IS ONE OF THE LEADING NATIONAL DISTRIBUTORS IN THE HARDWARE AND HOME RENOVATION BUSINESS.**

The products distributed by the Company can be found in more than 1,500 points of sales throughout Canada, operated by independent dealers and whose sales total $1.4 billion at retail. The mission of Sodisco-Howden is to be the preferred strategic partner of Canadian hardware and home renovation dealers and its main objective is to help them grow their business. The Company remains at the leading edge of market trends as dictated by consumer needs, in order to provide its dealers with the required tools for success.

Hundreds of dealers have enthusiastically adopted the new **PRO** banner, a consolidation which serves to further strengthen this network of independent dealers while enhancing the in-store deployment of private label products.

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*(in thousands of dollars)*

| *Years ended December 31* | **2000** | 1999 |
|---|---|---|
| **SUMMARY OF ANNUAL RESULTS** | | |
| Revenues | **422,277** | 423,489 |
| Operating income | **14,588** | 13,155 |
| Cash flow from operations | **11,927** | 9,325 |

**SUMMARY OF QUARTERLY RESULTS**

*(in thousands of dollars)*

| | *March* | *June* | *September* | *December* | *Total* |
|---|---|---|---|---|---|
| Revenues | | | | | |
| 2000 | 86,294 | 134,846 | 100,261 | 100,876 | **422,277** |
| 1999 | 74,659 | 130,784 | 113,651 | 104,395 | 423,489 |
| Operating income | | | | | |
| 2000 | 1,944 | 5,073 | 3,410 | 4,161 | **14,588** |
| 1999 | 1,835 | 5,187 | 3,571 | 2,562 | 13,155 |
| Earnings before income taxes and costs related to goodwill | | | | | |
| 2000 | 165 | 3,856 | 2,086 | 2,860 | **8,967** |
| 1999 | 131 | 3,264 | 1,843 | 1,235 | 6,473 |
| Net earnings | | | | | |
| 2000 | 126 | 5,782 | 2,803 | 4,212 | **12,923** |
| 1999 | 95 | 3,225 | 1,805 | 5,728 | 10,853 |

*(in thousands of dollars)*

| *As at December 31* | **2000** | 1999 |
|---|---|---|
| **FINANCIAL STRUCTURE** | | |
| Bank loans | **18,853** | 11,983 |
| Long-term debt due within one year | **1,161** | 967 |
| Long-term debt | **9,732** | 15,155 |
| Total debt | **29,746** | 28,105 |
| Shareholders' equity | **52,320** | 34,826 |

# MESSAGE TO SHAREHOLDERS

*Sodisco-Howden took major steps forward during the fiscal year ended December 31, 2000. Revenues reached $422.3 million and net earnings were $12.9 million, resulting in a remarkable 19.1% improvement in our profit margin. Clearly, the momentum that began in 1997 is continuing strongly: the Company's results are improving, the reorganization of our capital structure has been completed and we have progressed on all fronts in implementing our growth strategy. Even though sales volumes were flat in comparison with those of the previous year due mainly to a 20% plus deflation in certain lumber and building material prices, we successfully managed to offset the impact on our earnings. In essence, we attained and even surpassed our goals, and most important, we substantially improved the Company's profitability.*

D. ANTHONY MOLLUSO

The national deployment of the new PRO banner was launched as planned during the second quarter. The results were overwhelming as the vast majority of the 750 dealers across Canada immediately endorsed the appeal of the new logo and its enhanced marketing programs. In addition to the existing PRO dealers, the new banner was also adopted by dealers formerly operating under the Unitotal, Novico and Mat-Expert banners. The new PRO stores, including PRO Quincaillerie, PRO Rénovation, PRO DécoHabitat, PRO Hardware and PRO HomeCentre, as well as some Do-it selected markets will benefit not only from a range of some 75,000 products but also from programs that are tailored to their needs. This change has translated into the birth of a new network of independent dealers in Canada's hardware and home improvement industry, a network that is larger, stronger and with far greater growth potential. This development will benefit consumers, dealers and shareholders alike. The growth in both the new PRO banner and Do-it selected markets will be the program of choice for independent home centres in Canada.

The speed by which we attained critical mass in deploying the new banner encouraged the Company to invest in the PRO trademark now fully represented across Canada. We embarked on massive advertising campaigns, something more difficult to achieve in the past because of banner fragmentation. The 30 million copy flyer program is a viable and visible means by which traffic is increased in dealers' stores. At the end of year 2000, remarkable visibility was obtained from the announcement that PRO would be sponsoring the Canadian Freestyle Ski Team considered as one of the most daring and inventive in the world, starting in 2001.

The consolidation of banners also allows Sodisco-Howden to fully leverage the private label strategy which, until now, has been a marginal tool in our organization. The Company moved quickly to capitalize on the deployment of the new banner. The team raised to the challenge by successfully marketing some 700 products under the PRO brand during the year and a target that should surpass 1,000 products by early fiscal 2001. The combination of a large network of dealers operating under a single banner, a vast assortment of private label products and a trademark with stronger awareness provide Sodisco-Howden with a totally new platform to support the Company's growth.

The banner repositioning in no way affects the services that the Company offers to approximately 800 non-bannered dealers. Sodisco-Howden is also the primary hardware distributor for Canada's largest buying groups: Tim-BR-Marts, Castle, Independent Lumber Dealers Co-operative (ILDC) and Sexton.

The Company made two strategic acquisitions during the year. In April, the hardware distribution operations and related assets of Smith-Barregar Ltd of Langley, present mainly in British Columbia and Alberta, were acquired.

Besides strengthening the position of the Company in Western Canada, this transaction provides Sodisco-Howden with a distribution centre in the Vancouver area which will reduce transportation costs and increase efficiency. In July, the hardware-related assets of the retail sales division of Weber Supply Company Inc. of Kitchener (Ontario) were acquired, which increases the market share of the Company in Ontario and Atlantic Canada.

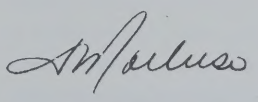
Information technology will also play a predominant role in the Company's future success. During the year, an electronic catalogue was successfully introduced, providing the dealers with fast, simple and user-friendly access to a virtual distribution centre offering some 75,000 products while the majority of dealers have less than 10,000 products on their floor. The dealers, who are mainly located regionally, in or around smaller cities, not facing direct competition from big-box stores, can now access an extensive range of products and order on line. Delivery follows within 24 to 72 hours later. The system also provides dealers with applications for collecting and managing data on the transactions. The electronic catalogue will increase sales for both Sodisco-Howden and the dealers.

The progress made in logistic management in 2000 will lead to the closing of one of the three building material distribution centres in early 2001. The economies achieved in that area will be reflected not only in the Company's financial results, but also in product prices and, by extension, Sodisco-Howden's market share. We also have plans in the near future to expand the Spancan (1999) buying group created in January 1999 in order to enhance the Company's buying power and which has proven to be a success.

During the year, the Company undertook two major initiatives to complete the work already started on simplifying the Company's capital structure. First, following an agreement reached early in the fiscal year, Series D, DD and E debentures were converted into capital stock, and non-converted Series E debentures were redeemed. The result is a healthier balance sheet that strengthens the Company's financial situation and particularly its capability to make future acquisitions. These transactions result in a favourable impact on the Company's financial expenses, translating into a reduction of almost $2 million in fiscal 2000. Secondly, common shares were consolidated on a 20-to-1 basis. The Company then introduced a share buy-back program under a normal course issuer bid that will run until May 2001.

We believe that conditions are favourable for continued growth of the Company and its profit margins in spite of the forecasted economic slowdown. Sodisco-Howden believes that time, convenience, excellent and friendly service are the elements for success in the retail environment. This network of independent men and women, family-owned stores, will be the store of choice to the Canadian consumer. Every day low prices on selected items and flexible retail pricing will not only maintain but also improve the margins of the Company and that of the dealers. All in all, the Canadian home improvement market estimated at more than $20 billion has historically demonstrated a strong resistance to economic slowdowns to the extent of featuring anti-cyclical trends. The Company's financial situation, critical mass, competitive position and strategic approach all combine to poise Sodisco-Howden for strong continued growth, particularly through acquisitions.

We wish to take this opportunity to acknowledge and thank all of our employees whose dedication and competence continue to be the cornerstone of the Company's development. We also wish to thank the members of the Board of Directors whose experience and insight were once again invaluable. Finally, special thanks to all of our customers and partners, to whom we reiterate our commitment to quality and innovation.



D. ANTHONY MOLLUSO
*President and Chief Executive Officer*

## Review of activities

*Sodisco-Howden Group Inc. (the "Company") is a key player in the home renovation business as a leading distributor of hardware products and building materials in Canada.*

*The Company distributes its products primarily through its network of some 750 merchants who carry the PRO and Do-it banners. These outlets are managed by independent merchant-entrepreneurs, and they vary in size from corner hardware stores to home improvement centres that offer a wide range of home-related products. Approximately 27% of Sodisco-Howden's sales are derived from independent merchants who do not participate in the Company's sales and marketing programs for which the Company focuses its services on product distribution.*

*In addition to benefiting from Sodisco-Howden's state-of-the-art expertise in distribution, merchants rely on the many sales, marketing and administration services available through the Company. In the area of home renovations, the PRO and Do-it banners rank among the most recognized in the country.*

*The Company supplies hardware products from modern facilities in Victoriaville (Quebec), London (Ontario) and Langley (British Columbia) as well as building materials from locations in Quebec at Bernieres and Riviere-du-Loup.*

### Revenues

For the year ended December 31, 2000, Sodisco-Howden's revenues amounted to $422.3 million, which compares closely with the $423.5 million in revenues last year.

The Company was therefore able to maintain its revenues during the year despite a drop in the price of certain products in the building materials sector. In some product categories, prices fell by more than 20% compared with last year, and this despite sustained demand generated by a steady number of construction starts throughout the country. Management estimates that this situation caused revenues to decline by almost $20 million.

Bannered merchants responded favourably to the project adopted by the Company to renew the PRO banner and in-store signage. The project will culminate in fiscal 2001 with the introduction of a broader range of quality private-brand products that are eagerly anticipated by all merchants.

During the year, the Company completed its acquisition of certain hardware operations assets of two regional distributors, Smith-Barregar Ltd. and Weber Supply Company Inc., located in British Columbia and Ontario respectively.

Although they contributed fairly modestly to revenues during the year, Sodisco-Howden is confident that each acquisition will generate benefits in the future.

### Operating income

For the year ended December 31, 2000, the Company's operating income rose 10.9% to $14.6 million, or 3.5% of total revenues, compared with operating income of $13.2 million or 3.1% of revenues last year.

This increase in operating income is partly attributable to the fact that hardware products accounted for a higher proportion of sales originating at warehouses. These products generate a higher profit margin than do other transactions on average. With this improvement in margin, the additional operating expenses related to the new acquisitions made during the year ended December 31, 2000 were offset.

Also, the operating income took into account a charge of about $1.2 million in connection with the programs relating to the new PRO banner. This project required disbursements of over $2 million of which $853,000 were posted to the balance sheet as deferred costs.

### Financial expenses

Total financial expenses decreased sharply to $3.3 million for the year ended December 31, 2000, compared with $5.1 million last year.

This decrease, particularly with respect to the interest on long-term debt, is due to the conversion of debentures to share capital with a par value of $12.2 million that was realized early in the year. This conversion also significantly improved the Company's capital structure.

The Company also benefited from a reduction of its cost of capital resulting in lower interest charges on bank loans thanks to improved terms upon the renewal of its credit facilities during the year.

### Depreciation and amortization

Depreciation and amortization expenses rose from $1.7 million in 1999 to $2.7 million this year. The increase is due mainly to the impact of capital investments carried out in the past few years, as well as to amortization of goodwill related to the strategic acquisitions made during the year which will be amortized over a ten-year period on a straight-line basis. The goodwill is subject to a holdback of $825,000 for which a final settlement will occur during 2001, further to which any adjustment would be presented in reduction of goodwill.

Moreover, a portion of the costs related to the PRO banner renewal program appears as deferred costs on the balance sheet which are allocated over three years; a portion of the costs was therefore charged to the year ended December 31, 2000.

### Income taxes

During the year, the Company recorded a future income tax asset representing all losses carried forward other than capital losses and deductible timing differences. Accordingly, starting with financial year 2001, income tax expenses will be charged to earnings, the major portion of which will not impact cash flow.

The effective income rate reached 40.4% for the year in comparison to a rate of 40.5% last year.

### Net earnings

For the year ended December 31, 2000, the Company's net earnings totalled $12.9 million, or $0.67 per common share on a fully diluted basis. This compares favourably with net earnings for the previous year in the amount of $10.9 million or $0.66 per common share on a fully diluted basis, for an increase of approximately 19.1%.

During the year, the shareholders of Sodisco-Howden approved a modification to its share capital resulting in the consolidation of all outstanding common shares on a 20-for-1 basis.

As well, the shareholders approved a share redemption program as part of a normal course issuer bid, under which 130,000 shares were redeemed and cancelled during the year. This program, in force until May 23, 2001, enables the Company to redeem up to a maximum of 995,469 shares.

As at December 31, 2000, there were 19,779,562 shares outstanding compared with 14,609,025 shares last year.

### Capital structure

As at December 31, 2000, the Company's total assets amounted to $117.3 million compared with $106.4 million at the same time last year. The increase results primarily from the acquisitions of Smith-Barregar and Weber, in particular with respect to inventories as well as goodwill for which the initial value was in the amount of $3.9 million.

The Company's working capital ratio stood at 1.52:1 compared with 1.43:1 at the end of the previous year. Also, the conversion of debentures to share capital, combined with the growth in profitability achieved during the year, substantially improved the funded debt-to-equity ratio. It was 0.57:1 at year-end, compared with 0.81:1 at the same date in 1999. This improvement in the Company's capital structure significantly strengthened its balance sheet while providing leeway for future strategic decisions.

Long-term debt totalled $9.7 million as at December 31, 2000, for a decrease of approximately $5.4 million compared with last year; it primarily consists of mortgage loans on Company real estate.

The cash flows from operations amounted to $11.9 million in 2000 compared with $9.3 million a year ago. This is primarily

due to the increase in net earnings. Capital acquisitions amounted to $2.3 million and were financed through capital leases and bank advances. The latter increased primarily as a result of the financing for the assets acquired from Smith-Barregar and Weber.

### Risks and uncertainties

Sodisco-Howden operates in a competitive market alongside various large-scale competitors that include regional buying groups, cooperatives and multinationals with large market capitalization.

As with most active retail sectors, the market is essentially made up of mass merchandisers and traditional stores. The competition is sharp in major urban centres where many retailers are striving for premier market positioning.

The sector is expected to consolidate further in the future, and this will reduce the number of competitors and cause their strengths and financial resources to converge.

In such a challenging context, the Company will need to strengthen its strategic position by remaining alert to growth opportunities while respecting its primary mission as a distinctive and even unique national distributor.

The Company enjoys a flexible structure with respect to its customers and offers responsive solutions to merchant-entrepreneurs ranging from basic product distribution to the development of integrated banner marketing programs. The Company feels that such an approach is most effective in meeting the requirements of entrepreneurs who prefer not to be governed by stricter rules and heavier financial commitments required by cooperative groups.

Although it is important for Sodisco-Howden to be active in all market sectors, the Company's strategy is to place greater emphasis on commanding a dominant and solid position in the less competitive market niche located outside large urban centres.

Among other factors for future success, the Company must draw on the expertise of its merchants and assist them in meeting the needs of an increasingly sophisticated consumer.

In this regard, the Company has developed essential tools over the years, including most recently the renewal of the PRO banner and the creation of a virtual store intended for merchants and featuring all products available for home renovation. The Company will continue to practice such discipline to meet the growing needs of its customers.

Financially, the Company faces foreign-exchange and interest-rate risks. The foreign-exchange risks are limited to the purchases from foreign suppliers which are made in U.S. dollars. The Company plans to hedge against the impact of exchange-rate fluctuations through moderate-risk financial instruments such as forward contracts and options.

In light of the decrease in debt resulting from the conversion of debentures to share capital, the interest-rate risk has been substantially reduced. Under its current agreements regarding long-term debt, Sodisco-Howden is able to set terms according to various maturities, which helps the Company to cope with the periodic ups and downs of capital markets.

### Outlook

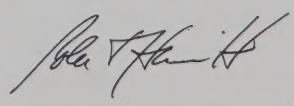
In recent years, the home renovation market has experienced unprecedented growth as a result of a record number of construction starts and renovations owing to changes in ownership.

Such a level of activity is unlikely to continue at the same pace given the signs of an economic slowdown reported in recent months.

Nonetheless, consumers are still investing in their homes and will continue to do so thanks to the greater purchasing power resulting from tax incentives introduced recently by government authorities.

During the periods of growth in construction starts, building materials tend to account for a higher proportion of revenues, while depressed economic cycles tend to spur renovation projects that make use of products with higher profit margins.

While continuing to pursue a growth strategy in line with its resources, the Company will strive to do what is necessary to strengthen the positioning and reputation of its banners.



Robert Harritt
*Executive Vice-President and Chief Financial Officer*

## Management's Report

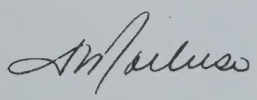
### Management's Responsibility for Financial Reporting

The consolidated financial statements of Sodisco-Howden Group Inc., including the notes to the financial statements presented in this report, have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of management.

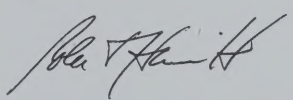
The Company has established the necessary accounting systems, policies and procedures to provide reasonable assurance as to the reliability of the financial information and to safeguard the assets.

The Audit Committee of the Board of Directors is composed of a majority of outside directors. It reviews in detail in the presence of the auditors and members of management, the consolidated financial statements and recommends their approval to the Board. The Committee also examines quarterly financial results regularly.

The Company's external auditors, Raymond Chabot Grant Thornton, are appointed by the shareholders to provide an objective, independent review of management's discharge of its responsibilities as it relates to the fairness of reported operating results and financial position. Their report is given hereafter.



D. Anthony Molluso
*President and Chief Executive Officer*



Robert Harritt
*Executive Vice-President and Chief Financial Officer*

March 9, 2001

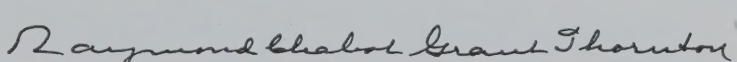
## Auditors' Report

### To the Shareholders of Sodisco-Howden Group Inc.

We have audited the consolidated balance sheets of Sodisco-Howden Group Inc. as at December 31, 2000 and 1999, and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



General Partnership
Chartered Accountants
Montreal, March 9, 2001

# CONSOLIDATED BALANCE SHEETS

*(in thousands of dollars)*

| *As at December 31* | **2000** | 1999 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Accounts receivable | **34,470** | 34,589 |
| Inventories | **43,912** | 40,787 |
| Prepaid expenses | **1,059** | 875 |
| Future income taxes (Note 10) | **4,762** | 4,530 |
| | **84,203** | 80,781 |
| Investments (Note 4) | **1,233** | 1,091 |
| Fixed assets (Note 5) | **23,494** | 24,523 |
| Future income taxes (Note 10) | **4,212** | — |
| Other assets (Note 6) | **4,159** | — |
| | **117,301** | 106,395 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Bank loans (Note 7) | **18,853** | 11,983 |
| Accounts payable | **35,235** | 43,464 |
| Long-term debt due within one year (Note 8) | **1,161** | 967 |
| | **55,249** | 56,414 |
| Long-term debt (Note 8) | **9,732** | 15,155 |
| | **64,981** | 71,569 |
| **SHAREHOLDERS' EQUITY** | | |
| Equity component of convertible debentures (Note 8) | **—** | 11,071 |
| Capital stock (Note 9) | **38,556** | 22,877 |
| Retained earnings | **13,764** | 878 |
| | **52,320** | 34,826 |
| | **117,301** | 106,395 |

*The accompanying notes are an integral part of the consolidated financial statements.*

*For the Board of Directors,*

HUBERT A. DE LA BEAUMELLE
*Director*

D. ANTHONY MOLLUSO
*Director*

## CONSOLIDATED RETAINED EARNINGS

| *Years ended December 31* | *(in thousands of dollars)* **2000** | 1999 |
|---|---|---|
| Retained earnings (deficit), beginning of year | **878** | (9,818) |
| Net earnings | **12,923** | 10,853 |
| | **13,801** | 1,035 |
| Costs related to the consolidation and conversion of shares | **(37)** | (130) |
| Cumulative dividends on first preferred shares, series 2 | **—** | (27) |
| Retained earnings, end of year | **13,764** | 878 |

*The accompanying notes are an integral part of the consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF EARNINGS

| *Years ended December 31* | *(in thousands of dollars, except for earnings per share)* **2000** | 1999 |
|---|---|---|
| **Revenues** | **422,277** | 423,489 |
| Earnings before the following items | **14,588** | 13,155 |
| Interest on long-term debt | **1,714** | 3,458 |
| Other interest | **1,562** | 1,600 |
| Depreciation of fixed assets | **2,096** | 1,655 |
| Amortization of deferred costs | **284** | — |
| Gain on sale of fixed assets and other | **(35)** | (31) |
| | **5,621** | 6,682 |
| Earnings before income taxes and costs related to goodwill | **8,967** | 6,473 |
| Income taxes (Note 10) | **(4,238)** | (4,380) |
| Net earnings before costs related to goodwill | **13,205** | 10,853 |
| Costs related to goodwill, net of income taxes of $52 in 2000 | **282** | — |
| **Net earnings** | **12,923** | 10,853 |
| Earnings per share, basic | | |
| Before costs related to goodwill | **0.71** | 0.76 |
| After costs related to goodwill | **0.69** | 0.76 |
| Earnings per share, fully diluted (Note 9) | | |
| Before costs related to goodwill | **0.69** | 0.66 |
| After costs related to goodwill | **0.67** | 0.66 |
| Weighted average number of shares outstanding (in thousands) | **18,698** | 14,147 |

*The accompanying notes are an integral part of the consolidated financial statements.*

# CONSOLIDATED CASH FLOWS

*(in thousands of dollars)*

| *Years ended December 31* | **2000** | 1999 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net earnings | **12,923** | 10,853 |
| Depreciation of fixed assets and amortization of deferred costs and goodwill | **2,714** | 1,655 |
| Future income taxes | **(4,444)** | (4,530) |
| Interest on convertible debentures | **769** | 1,382 |
| Other | **(35)** | (35) |
| | **11,927** | 9,325 |
| Changes in working capital items (Note 11) | **(4,325)** | (6,854) |
| Cash flows from operating activities | **7,602** | 2,471 |
| **FINANCING ACTIVITIES** | | |
| Bank loans | **6,870** | (4,681) |
| Repayments of long-term debt | **(682)** | (799) |
| Shares purchased | **(321)** | — |
| Disbursements related to the redemption and conversion of debentures | **(1,203)** | — |
| Costs related to the consolidation and conversion of shares | **(37)** | (130) |
| Issue of common shares from employee stock options | **5** | 16 |
| Long-term debt | **—** | 3,500 |
| Cash flows from financing activities | **4,632** | (2,094) |
| **INVESTING ACTIVITIES** | | |
| Investments | **(131)** | (25) |
| Additions to fixed assets | **(1,715)** | (427) |
| Disposal of fixed assets | **75** | 75 |
| Deferred costs | **(853)** | — |
| Business acquisitions | **(9,610)** | — |
| Cash flows from investing activities | **(12,234)** | (377) |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | **—** | — |

*The accompanying notes are an integral part of the consolidated financial statements.*

DECEMBER 31, 2000 AND 1999
(Monetary amounts in tables are in thousands of dollars)

## 1 > GOVERNING STATUTE AND BUSINESS ACTIVITY

Sodisco-Howden Group Inc. is incorporated under Part 1A of the Companies Act (Quebec) and distributes home improvement products throughout Canada.

## 2 > ACCOUNTING POLICIES

### ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates.

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term investments having a term of three months or less.

### INVENTORY VALUATION

The inventories are valued at the lower of cost and net realizable value. Cost is determined by the first in, first out method.

### INVESTMENTS

Investments are presented at cost.

### DEPRECIATION

Fixed assets are valued at cost and are depreciated over their estimated useful lives according to the following methods and annual rates:

| | Methods | Rates |
|---|---|---|
| Buildings and land improvements | Straight-line and diminishing balance | 2% to 5% |
| Furniture, equipment and automotive equipment | Straight-line and diminishing balance | 5% to 33 1/3% |

### DEFERRED COSTS

Deferred costs relate to charges incurred in connection with a banner conversion program and are amortized using the straight-line method over a three-year period.

### GOODWILL

Goodwill represents the difference between the purchase price and the fair value of net assets of acquired businesses. Goodwill is amortized using the straight-line method over a ten-year period.

### TRANSLATION OF CURRENCIES

Monetary assets and liabilities resulting from currency transactions are translated into Canadian dollars using the year-end translation rate. Charges are translated at the average exchange rate prevailing throughout the year. Gains and losses on translation are included in the statement of earnings.

### INCOME TAXES

Income taxes are recorded according to the liability method of tax allocation. According to this method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases for assets and liabilities, and are measured using estimated tax rates which will be in effect when the differences are expected to be reversed.

## 3 > BUSINESS ACQUISITIONS

On April 3, 2000, the Company acquired operating assets related to hardware distribution of Smith-Barregar Ltd, located in British Columbia. On July 14, 2000, the Company also acquired certain assets of a hardware distributor named Weber Supply Company Inc. located in Ontario. Both acquisitions were accounted for under the purchase method and are detailed as follows:

| | |
|---|---|
| Accounts receivable | **2,716** |
| Inventories | **3,472** |
| Fixed assets | **496** |
| Goodwill | **3,924** |
| | **10,608** |
| Liabilities assumed | **173** |
| Net assets acquired | **10,435** |
| Portion paid in cash | **9,610** |
| Balance of purchase price | **825** |
| | **10,435** |

The balance of purchase price is subject to a final settlement further to which any adjustment would be presented in reduction of goodwill.

## 4 > INVESTMENTS

| | **2000** | 1999 |
|---|---|---|
| Loans and advances, at variable interest rates and terms | **1,005** | 858 |
| Partnerships in buying groups | **228** | 233 |
| | **1,233** | 1,091 |

## 5 > FIXED ASSETS

| | | | **2000** |
|---|---|---|---|
| | **Cost** | **Accumulated depreciation** | **Net** |
| Land | **3,767** | **—** | **3,767** |
| Buildings and land improvements | **25,477** | **10,717** | **14,760** |
| Furniture and equipment | **23,523** | **18,686** | **4,837** |
| Automotive equipment | **1,137** | **1,007** | **130** |
| | **53,904** | **30,410** | **23,494** |

| | | | 1999 |
|---|---|---|---|
| | Cost | Accumulated depreciation | Net |
| Land | 3,930 | — | 3,930 |
| Buildings and land improvements | 27,576 | 10,898 | 16,678 |
| Furniture and equipment | 21,383 | 17,600 | 3,783 |
| Automotive equipment | 1,726 | 1,594 | 132 |
| | 54,615 | 30,092 | 24,523 |

During the year, fixed assets were acquired under capital leases for a total cost of $445,000 ($626,000 in 1999).

## 6 > OTHER ASSETS

| | 2000 | | | 1999 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net | Net |
| Deferred costs | 853 | 284 | 569 | — |
| Goodwill | 3,924 | 334 | 3,590 | — |
| | 4,777 | 618 | 4,159 | — |

## 7 > BANK LOANS

In September 2000, the Company renewed a credit facility of a maximum of $40,000,000 for a three-year period ending on September 30, 2003.

The bank loans are secured by movable hypothecs on the Company's present and future assets, including accounts receivable, inventories and certain fixed assets.

Bank loans bear interest at the lender's prime rate plus 0.5% or, at the Company's option, at the lender's banker's acceptance rate plus 1.5% (0.75% and 1.875% respectively, prior to September 30, 2000).

The Company is also required to respect certain financial covenants which, at the date of the financial statements, had been met.

## 8 > LONG-TERM DEBT

| | 2000 | 1999 |
|---|---|---|
| Mortgage loan, 8.11%, nominal value of $7,500,000, repayable by monthly instalments of $66,987, principal and interest, maturing on July 1, 2002 | 6,067 | 6,373 |
| Mortgage loans, 8.9%, (9.4% in 1999) nominal value of $4,500,000, repayable by monthly instalments of $31,240, maturing in 2011 | 3,873 | 4,249 |
| Obligations under capital leases bearing interest at rates varying from 1.77% to 8.91% and maturing on various dates up to 2004 | 953 | 825 |
| Liability component of convertible debentures | — | 4,675 |
| | 10,893 | 16,122 |
| Long-term debt due within one year | 1,161 | 967 |
| | 9,732 | 15,155 |

Principal repayments of long-term debt over the next five years are $1,161,000 in 2001, $737,000 in 2002, $498,000 in 2003, $382,000 in 2004 and $375,000 in 2005.

### CONVERTIBLE DEBENTURES

Further to a Board resolution adopted in December 1999, the Company offered series D, DD and E debenture holders a premium of $0.025 per nominal value dollar and accrued interest as long as debentures were converted latest March 23, 2000. Also, on January 14, 2000, the Company issued a notice advising series E debenture holders that on March 24, 2000, the Company would proceed to the redemption of all series E outstanding debentures as at March 23, 2000, midnight. Debentures for a nominal value of $12,242,000 and accrued interest of $1,005,000 were converted in 5,297,677 common shares (105,969,512 before the consolidation of shares) for a consideration

of $13,247,000 and the balance of debentures of a nominal value of $688,000 was redeemed for $728,000 including $40,000 in accrued interest. A premium of $331,000 was also paid to the holders further to the conversion of debentures. Moreover, these transactions increased the capital stock by $2,748,000, net of costs of $144,000.

As at December 31, 1999, series D, DD and E convertible debentures bore interest at rates varying from 7.5% to 10.49% and their nominal value totalled $12,930,000. The equity component of the convertible debentures amounted to $11,071,000 and the liability component amounted to $4,675,000.

In 1999, series E debentures in the amount of $129,400 were converted into common shares at the rate of $2.50 per share ($0.125 per share before the consolidation of shares).

## 9 > CAPITAL STOCK

Authorized capital stock is as follows:

Unlimited number of shares without nominal value

First preferred shares issuable in series

2,650,000 series 2 preferred shares, with a cumulative dividend of $0.65, redeemable at a price of $10.00 per share at all times.

Second preferred shares issuable in series

series A preferred shares with cumulative dividend at an annual rate of 6.5% of the paid-up capital, redeemable at a price of $0.50 per share at all times and retractable at a price of $0.50 per share.

Voting and participating common shares.

During the year, the Company proceeded to modify its share capital resulting in the consolidation of common shares on the basis of a 20:1 ratio.

In 1999, the Company obtained statutes of amendment regarding the authorized and outstanding share capital to convert all of the issued and outstanding first preferred shares, series 2 and second preferred shares, series A into fully paid common shares of the Company at the rate of 3.59 and 0.18 (71.59 and 3.58 respectively before the consolidation of shares) common shares for each first preferred share, series 2 and each second preferred share, series A respectively.

A) ISSUED AND FULLY PAID CAPITAL STOCK IS AS FOLLOWS:

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount** | Number of shares | Amount |
| Balance, beginning of year | **14,609,025** | **22,877** | 13,379,461 | 18,713 |
| Conversion of debentures | **5,297,677** | **15,995** | 53,587 | 134 |
| Shares purchased (Note 9C)) | **(130,000)** | **(321)** | — | — |
| Shares issued following the exercise of stock options | **2,860** | **5** | 9,415 | 16 |
| Conversion of first preferred shares, series 2 and related accrued dividends | **—** | **—** | 346,139 | 1,192 |
| Conversion of second preferred shares, series A and related accrued dividends | **—** | **—** | 820,423 | 2,822 |
| Balance, end of year | **19,779,562** | **38,556** | 14,609,025 | 22,877 |

B) STOCK OPTION PLAN

The Company has a stock option plan for certain managers to a maximum of one million shares. These options may be exercised during the term of the contract which expires within a maximum of 10 years from the grant date.

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding, beginning of year | **366,895** | **2.00** | 386,060 | 2.00 |
| Granted | **204,300** | **3.12** | 7,500 | 4.60 |
| Exercised | **(2,860)** | **1.70** | (9,415) | 1.80 |
| Cancelled | **(55,530)** | **2.63** | (17,250) | 1.80 |
| Outstanding, end of year | **512,805** | **2.38** | 366,895 | 2.00 |
| Exercisable options | **281,272** | **1.97** | 282,370 | 2.00 |

C) SHARE PURCHASING PROGRAM

Further to shareholder approval dated May 16, 2000, the Company instituted a share purchase program under a normal course issuer bid. Under this program, the Company can purchase for cancellation, during a twelve-month period ending May 23, 2001, a maximum of 995,469 common shares. During the year, 130,000 common shares were purchased for a total consideration of $321,000.

10 > **INCOME TAXES**

Income taxes are detailed as follows:

| | 2000 | 1999 |
|---|---|---|
| Net earnings | **12,923** | 10,853 |
| Current income taxes | **154** | 150 |
| Future income taxes | **(4,444)** | (4,530) |
| Earnings before income taxes | **8,633** | 6,473 |
| Non-deductible items and others | **505** | 2,307 |
| Accounting income | **9,138** | 8,780 |
| Losses carried forward from previous years and reversal of timing differences | **(9,138)** | (8,780) |
| Restated accounting income | **—** | — |
| Effective income tax rate (a) | **40.4%** | 40.5% |

(a) The effective income tax rate does not differ substantially from the statutory tax rate.

The amount of $8,974,000 ($4,530,000 in 1999) accounted for as future income tax asset includes all losses from previous years other than capital losses of $7,051,000 ($8,780,000 in 1999) and deductible timing differences of $16,515,000, essentially related to fixed assets.

## 11 > INFORMATION INCLUDED IN THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in working capital items are as follows:

| | 2000 | 1999 |
|---|---|---|
| Accounts receivable | **4,170** | 1,093 |
| Inventories | **347** | (5,894) |
| Prepaid expenses | **(184)** | (73) |
| Accounts payable | **(8,658)** | (1,980) |
| | **(4,325)** | (6,854) |

Cash flows relating to interest and income taxes are detailed as follows:

| | 2000 | 1999 |
|---|---|---|
| Interest paid | **2,507** | 3,870 |
| Income taxes paid | **154** | 150 |

## 12 > FAIR VALUE OF FINANCIAL INSTRUMENTS ON THE BALANCE SHEET

Amounts indicated hereinafter represent the fair value of financial instruments on the Company's balance sheet calculated using the valuation methods and assumptions as indicated below.

The fair value is intended to represent estimated amounts for which financial instruments could be exchanged currently in a transaction between consenting parties. However, under normal course of business, the Company does not negotiate these financial instruments on the open market.

The estimated fair value of the financial instruments as at December 31 is as follows:

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| Assets | | | | |
| Accounts receivable | **34,470** | **34,470** | 34,589 | 34,589 |
| Investments | **1,233** | **B)** | 1,091 | B) |
| Liabilities | | | | |
| Bank loans | **18,853** | **18,853** | 11,983 | 11,983 |
| Accounts payable | **35,235** | **35,235** | 43,464 | 43,464 |
| Mortgage loans and obligations under capital leases | **10,893** | **10,893** | 11,447 | 11,447 |
| Liability component of convertible debentures | **—** | **—** | 4,675 | Note 8 |

The following methods and assumptions were used to calculate the estimated fair value of the financial instruments on the balance sheet.

A) Financial instruments valued at carrying amount

The estimated fair value of certain financial instruments shown on the balance sheet is equivalent to their carrying amount because they are realizable in the short-term. These financial instruments include accounts receivable, bank loans and accounts payable.

B) Investments

The fair value of investments was not determined because these transactions were made to maintain trade relationships that are favourable to the Company and they do not necessarily reflect the terms that would be negotiated on an arm's length basis with third parties.

C) Mortgage loans

The fair value of mortgage loans is determined by discounting the future cash flows at market rates on the balance sheet date for similar maturity dates.

13 > **Corresponding figures**

Certain figures of the prior year have been reclassified in order to make them compliant with the presentation adopted for the current year.

# FIVE-YEAR FINANCIAL SUMMARY

*(in thousands of dollars)*

| *Years ended December 31* | **2000** | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| **Revenues** | **422,277** | 423,489 | 363,618 | 353,557 | 357,182 |
| Earnings before the following items | **14,588** | 13,155 | 10,393 | 8,523 | 5,876 |
| Interest on long-term debt | **1,714** | 3,458 | 3,032 | 3,338 | 4,125 |
| Other interest | **1,562** | 1,600 | 2,321 | 2,727 | 2,780 |
| Depreciation of fixed assets | **2,096** | 1,655 | 1,907 | 2,529 | 3,292 |
| Amortization of deferred costs | **284** | — | — | — | — |
| Loss (gain) on sale of fixed assets and other | **(35)** | (31) | 153 | 14 | 164 |
| | **5,621** | 6,682 | 7,413 | 8,608 | 10,361 |
| Earnings (loss) before the following items and costs related to goodwill | **8,967** | 6,473 | 2,980 | (85) | (4,485) |
| Reorganization expenses | **—** | — | — | — | 5,550 |
| Write-off of deferred income taxes | **—** | — | — | — | 923 |
| Income taxes | **(4,238)** | (4,380) | 233 | 167 | 164 |
| | **(4,238)** | (4,380) | 233 | 167 | 6,637 |
| Net earnings (loss) before costs related to goodwill | **13,205** | 10,853 | 2,747 | (252) | (11,122) |
| Costs related to goodwill, net of income taxes of $52 in 2000 ($0 in 1996) | **282** | — | — | — | 49,018 |
| **Net earnings** | **12,923** | 10,853 | 2,747 | (252) | (60,140) |

## DIRECTORS

**Arkadi Bykhovsky**
President
Granville Composite Products

**Gérard Coulombe, c.r.** [3]
Senior Partner and
Chairman of the Board
Desjardins Ducharme Stein Monast

**David M. Culver, c.c.** [2] [3]
Chairman
CAI Capital Corporation

**Hubert A. de La Beaumelle** [1] [2] [3]
President
Paribas Participations Limitée and
Chairman of the Board
Sodisco-Howden Group Inc.

**Michael B. Harding** [2] [3]
Corporate Director

**D. Anthony Molluso** [3]
President and Chief Executive Officer
Sodisco-Howden Group Inc.

**Jacques Synnott** [1]
Director
Belron Canada Inc.

**Jos J. Wintermans** [1]
President and Chief Executive Officer
Skyjack Inc.

1) Audit Committee
2) Human Resources and
Corporate Governance Committee
3) Executive Committee

## OFFICERS

**D. Anthony Molluso**
President and Chief Executive Officer

**Robert Harritt, CGA**
Executive Vice-President and
Chief Financial Officer

**Pierre A. Racette**
Executive Vice-President
Sales and Merchandising

**Roger Courtois**
Vice-President, Business Negotiations
and Agreements

**Serge Imbeault**
Vice-President, Operations

**William D. Wilson**
Vice-President and General Manager
(D.H. Howden)

**Marie Lagacé**
Secretary

**Sylvie Leblond, CA**
Corporate Controller

**Sylvain Pelletier**
Director of Human Resources

## CORPORATE GOVERNANCE

The statement of the Company's corporate governance practices can be found in the Management Proxy Circular.

# CORPORATE INFORMATION

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## STOCK LISTING

Toronto Stock Exchange
Common Shares (SOD)

## AUDITORS

Raymond Chabot Grant Thornton

## BANKERS

Bank of America, Canada

## LEGAL COUNSEL

Desjardins Ducharme Stein Monast

## INVESTOR RELATIONS

Robert Harritt, CGA
Executive Vice-President and
Chief Financial Officer
(450) 441-6001

## ANNUAL MEETING

The Annual and Special General Meeting of Shareholders will take place at 10:00 AM, May 9, 2001, at the Marriott Chateau Champlain Hotel, Salon Viger, Place du Canada, Montreal (Quebec) H3B 4C9.

Une version française de ce rapport annuel est disponible sur demande.

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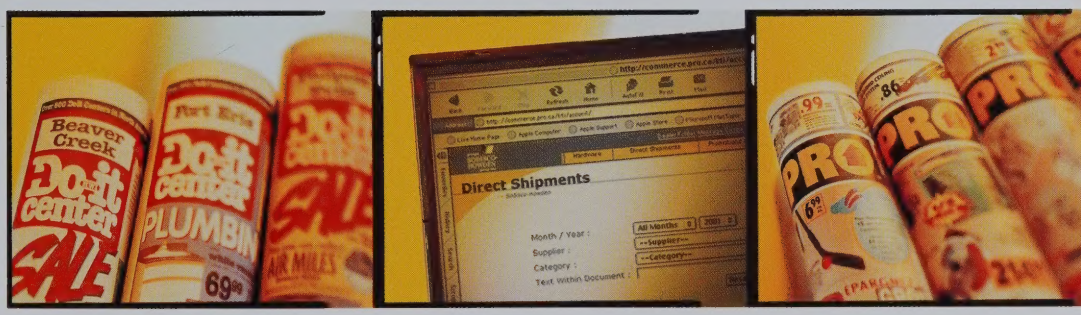


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